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ANNUAL REPORT 2007/08

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His Honour

The Honourable Steven L. Point
Lieutenant-Governor of the
Province of British Columbia

MAY IT PLEASE
YOUR HONOUR,

I respectfully submit the
Annual Report of BC Transit
for the fiscal year ended
March 31, 2008.

Kevin Falcon
Minister of Transportation and
Minister responsible for Transit

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Message from the Chair

It was a year of growth for BC Transit as a record number of British Columbians took the bus in 2007/08. Services were expanded and enhanced in communities in which transit is established and new systems were brought on line in smaller communities to see some 45 million passengers – a 5% increase over last year – taking transit.

Rising fuel costs as well as environmental awareness were factors that not only drove more people to take the bus, but also affected the operating budget for BC Transit.

BC Transit's response to the Province's Climate Action Plan began during the year with the signing of a contract that will see the world's first fleet of hydrogen fuel cell buses deployed at Whistler. A further contract will ensure fueling infrastructures are in place in Whistler and Victoria before the fleet arrives at the end of 2009. As well, an environmental fuel strategy that combines biodiesel with ultra-low sulphur diesel was expanded during the year to encompass 80% of BC Transit services.

Market conditions put pressure on the 2007/08 budget with fuel representing more than 14% of the total operating budget and indicators point to energy costs that will only continue to rise. Fleet maintenance costs were also higher during the year and, to attract the skilled staff required for increased service needs in a tight labour market, recruitment activities were significantly expanded.

To offset these financial challenges and expand to meet customer needs, BC Transit looked for opportunities to reduce costs in other areas while securing more funds to enhance service in existing systems and buy vehicles for new systems. The corporation received $2.1 million from the province and a further $2.5 million from local government and other partners for expanded operations. In addition to the $5.1 million received for rapid transit in Victoria, $12.1 million was earned from federal gas tax funding designated for vehicle purchases and facility improvements.

With its new fleet of hydrogen fuel cell buses BC Transit is preparing to welcome the world to the Vancouver 2010 Olympic and Paralympic Winter Games and continued to work with the Resort Municipality of Whistler, TransLink, VANOC and the Ministry of Transportation to finalize plans for spectator and workforce transportation services in support of the Games.

The corporation continued to work closely with the Canadian Urban Transit Association (CUTA), the Federation of Canadian Municipalities (FCM) and others to promote the development of a National Transit Strategy that will see sustained investment in public transit in Canadian cities and regions.

Transit services will expand in the province with the provincial government's January 2008 announcement of a $14 billion Provincial Transit Plan that will further the Climate Action initiative and strengthen the province's transit network. To lead BC Transit in building the team and capacity required for this enhanced public transit mandate, the BC Transit Board appointed Manuel Achadinha, an experienced transportation industry executive, as president and CEO.

This is an exciting time for BC Transit. There is growing public interest in public transportation that is efficient and affordable. While market conditions create challenges, there is great opportunity and commitment to improve and expand service for new and existing customers.

Kevin Mahoney
Chair

Accountability Statement

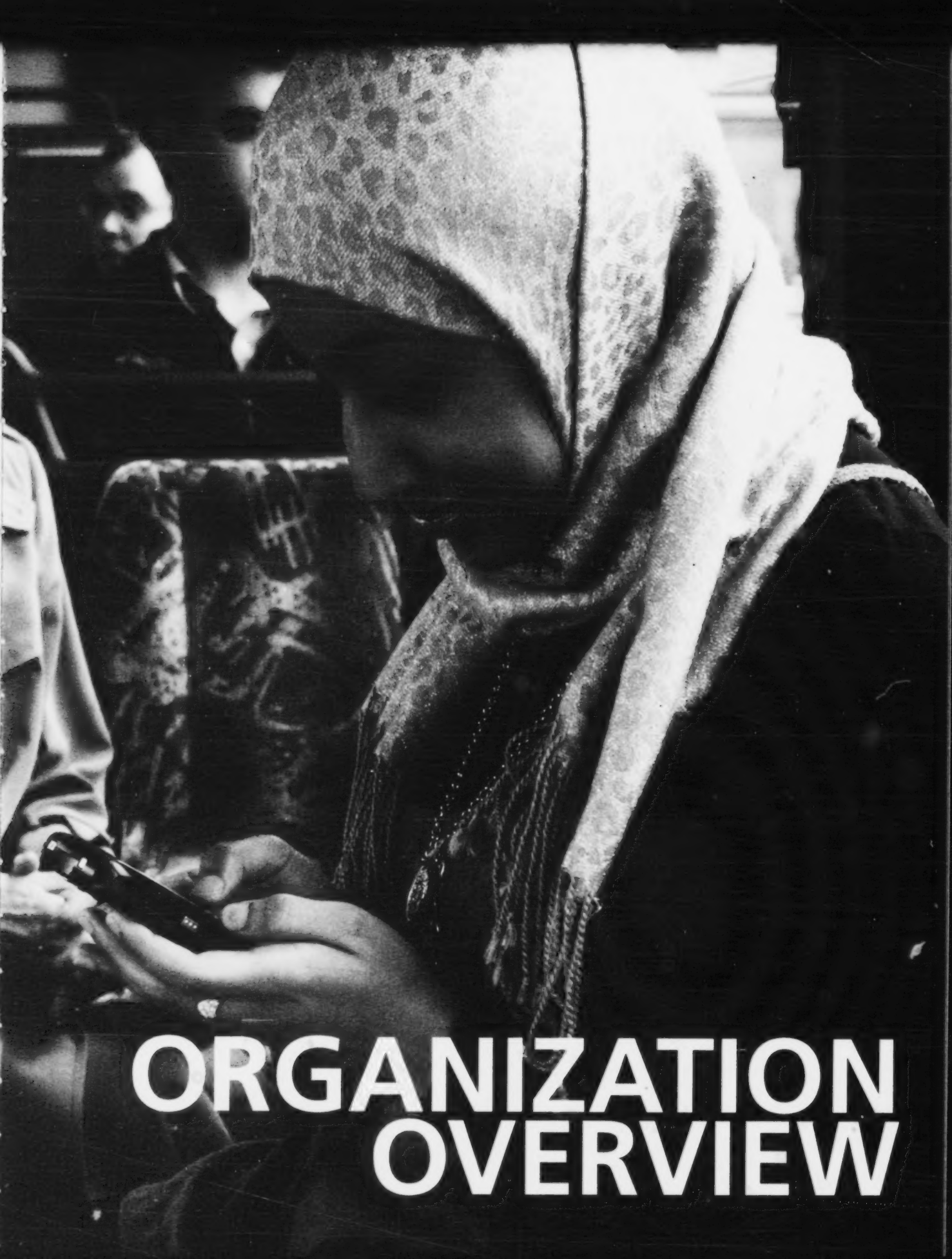
BC Transit's 2007/08 Annual Report was prepared under the BC Transit Board's direction in accordance with the Budget Transparency and Accountability Act. The Board is accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of the Crown agency for the 12 months ended March 31, 2008. All significant decisions, events and identified risks, as of March 31, 2008, have been considered in preparing the report.

The information presented is prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our actual performance in relation to our service plan. The measures presented are consistent with BC Transit's mission, goals and objectives, and focus on aspects critical to the organization's performance.

The Board is responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

This report contains estimates and interpretive information that represent the best judgment of management. Any signification limitations in the reliability of data are identified in the report.

Kevin Mahoney
Chair



ORGANIZATION OVERVIEW

Organization Overview

BC Transit is the provincial Crown agency charged with coordinating the delivery of public transportation throughout British Columbia outside Metro Vancouver. In partnership with local government, the Corporation's mandate includes planning, funding, marketing, fleet management and contracting for the operations of transit services. According to the British Columbia Transit Act (Section 3.1) BC Transit is to:

> ... plan, acquire, construct or cause to be constructed public passenger transportation systems and rail systems that support regional growth strategies, official community plans, and the economic development of transit service areas, [and] to provide for the maintenance and operation of those systems.

Scope

The scope of BC Transit's program as of March 2008:

- 56 local government partners, including health districts and the Victoria Regional Transit Commission
- contracts with 24 operating companies and 14 non-profit agencies
- approximately 45 million passengers carried annually
- over 1.4 million people served in B.C.
- 81 transit systems - conventional, custom and paratransit
- fleet of 850 conventional and double-deck buses, minibuses and vans
- $185.4 million annual expenditures

The Services

One bus doesn't fit all and BC Transit has three types of service to fit the varied needs of British Columbia's local markets and communities:

Conventional transit serves the general population in urban settings using mid-sized, large or double deck buses. The buses are mostly fully accessible and low-floor and run on fixed routes and fixed schedules. Community Bus service using minibuses on fixed routes is now being widely used to efficiently serve lower density/suburban markets and feed the mainline bus networks.

Custom transit employs vans and mini-buses and taxis for dial-a-ride and door-to-door handyDART service for passengers with disabilities who cannot use conventional transit. Contracted Taxi Supplement and Taxi Saver (discounted coupon) progams make for a flexible service that adapts to customer needs.

Paratransit serves small town and rural BC as well as some suburban areas using minibuses, taxis and vans for a flexible routing and schedules.

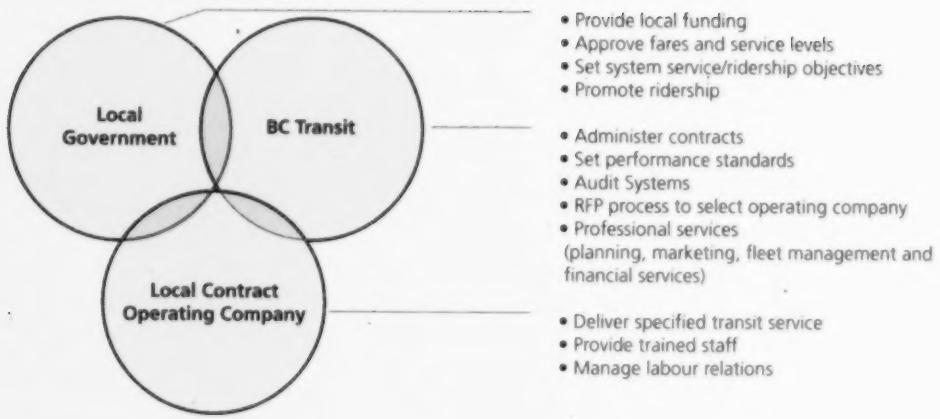
In the Victoria Regional Transit System, BC Transit measures customer awareness, service quality and customer satisfaction levels on a quarterly basis. These results are posted on BC Transit's website.

Every year in the Municipal Systems the Corporation carries out more than 40 audits of various aspects of the contracted services to ensure that a high quality of service and safety are maintained.

Governance and Board Activity

A seven-member Board of Directors appointed by the Province of British Columbia according to the BC Transit Act governs the Corporation. The Act requires four of the Board members to be elected municipal representatives. The Chair reports to a provincial cabinet minister.

BC Transit's Public-Private Partnership


Local Government
BC Transit
Local Contract Operating Company
• Provide local funding
• Approve fares and service levels
• Set system service/ridership objectives
• Promote ridership
• Administer contracts
• Set performance standards
• Audit Systems
• RFP process to select operating company
• Professional services (planning, marketing, fleet management and financial services)
• Deliver specified transit service
• Provide trained staff
• Manage labour relations

Membership on the Board of Directors as of March 2008 is as follows:

Mr. Kevin Mahoney (Chair), North Vancouver

Mayor Don Amos, Town of Sidney

Mr. Kelly Cairns, Kelowna

Mayor Christopher Causton, District of Oak Bay

Mr. Bob De Clark, Nanoose Bay

Mayor Colin Kinsley, City of Prince George

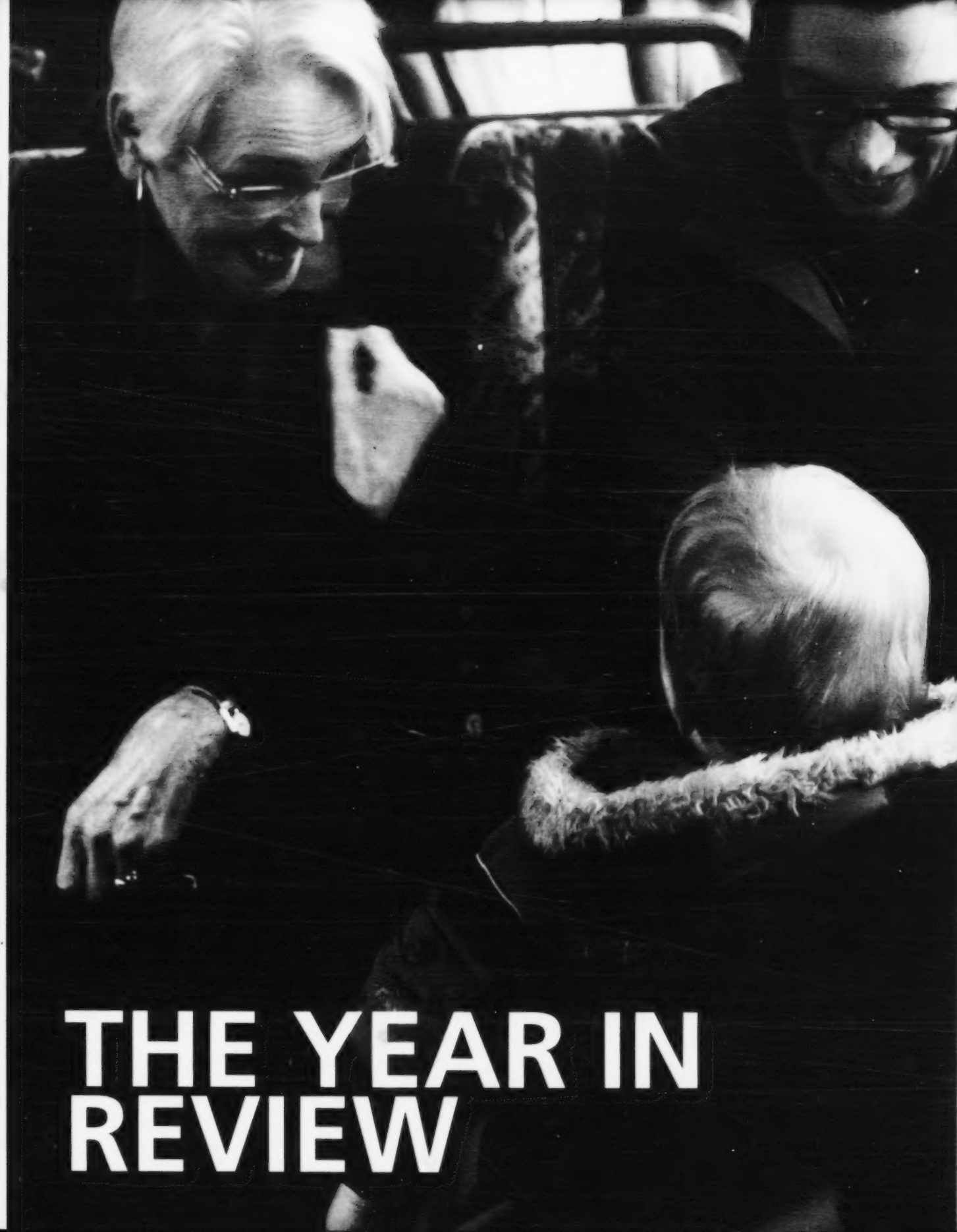
Mayor Terry Lake, City of Kamloops

The corporate governance review conducted in 2007 followed the subject area outline and provincial standards recommended by the Board Resourcing and Development Office. The specific areas identified for action by the Board and CEO in the coming fiscal year include the level of financial expertise on the Board, developing a more structured Board succession plan and assessment process, and the establishment of a standing Audit and Finance Committee. Currently the Audit Committee meets either as a Committee of the Whole or as the full Board in regular session.

More information about BC Transit's corporate governance is available at www.bctransit.com/corporate/general_info/governance.cfm

The Board of Directors was active in its support of the transit program during the year and visited the Central Fraser Valley and the Central and South Okanagan to meet with local government partners and operating contractors, and to tour transit facilities. As it has in past years, the Board consulted with local government partners at a well-attended transit forum at the annual Union of British Columbia Municipalities (UBCM) conference held in Vancouver in September.

Early in the fiscal year, the Minister of Transportation announced the results of a funding and governance review of BC Transit. The Board discussed the findings with the Minister and received support to continue corporate operations under the existing mandate with specific new priorities to be established in a Shareholder's Letter of Expectation to be issued prior to the start of the 2008/2009 fiscal year. The Shareholder's Letter of Expectation is available at http://www.busonline.ca/corporate/general_info/annual_reports.cfm#shareholders_let_exp.pdf



THE YEAR IN REVIEW

The Year in Review

More Riders, New Systems & Service Expansions

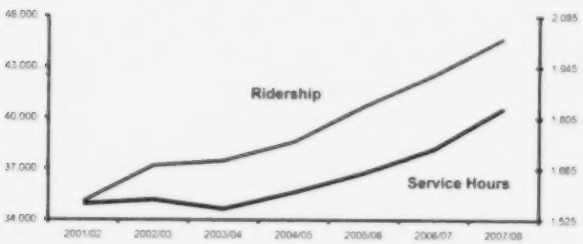
An additional 2.2 million passengers boarded the bus during the year for a record 44.7 million riders, up 5 per cent from last year.

The growth was province-wide but was particularly strong in the larger transit systems. An extensive service expansion and the start of U-PASS at UBC Okanagan saw Kelowna post an 18% jump in riders. Prince George saw ridership grow by 10%, the Central Fraser Valley rose by 6% and the Victoria region increased by 3%.

New transit systems, generally using minibuses and operating in a mix of in-town services with links to adjacent communities and rural areas, were initiated in last fiscal year in the following locations:

- Saltspring Island
- Kicking Horse (Golden and area)
- Columbia Valley
- Elk Valley

Ridership continued to build extending the multi-year run of steady to strong increases starting early this decade. Enhanced services, a strong economy, new funding and promotional partnership and an increasing public awareness of transit's social and economic benefits are all contributing to the trend.



Dramatic increases in fuel costs and the demand for cost effective and reliable alternatives to automobile dependancy have also resulted in spikes in ridership over the last three years.

In February 2007, BC Transit received funding from the Province to support expanded operations and significant capital investment in 2007/08.

Over 20 conventional transit systems saw expansions in service and fleet throughout the year with Kelowna showing the largest increase in service ever undertaken with a 21% lift in service. Victoria introduced a 6% overall expansion specifically aimed to develop the transportation network from downtown to the Westshore area by offering a 5 minute service frequency.

Through additional funding partnerships, BC Transit's transit systems benefited from the federal Gas Tax Fund.

More than 20 of British Columbia's small towns and rural communities benefited from funding for new and expanded transit services to link rural communities and small towns to regional services including Merritt, Golden, the Regional Districts of Thompson-Nicola, East Kootenay, Cariboo, Bella Coola, Williams Lake, Salt Spring Island and North Island communities within the Mt Waddington Regional District.

Environmental Initiatives

Making the switch to biofuel

BC Transit launched its environmental fuel strategy early in the fiscal year. Initial steps involved a phased migration from the #1 light diesel to a renewable biodiesel blended with new ultra low sulphur diesel. In combination this specification results in significantly lower emissions from transit vehicles.

Implementation began at the 5% level (B5) in Victoria and by year end 10 municipal systems were added based on availability of biofuel that met standards. As experience was gained, a higher blend (B20) was adopted in Victoria and Nanaimo during the warmer summer/fall months with some challenges with fuel storage and performance at colder winter temperatures. Over 80% of the BC Transit fleet is now using blended fuels and more locations will be added in the next fiscal year.

Whistler to get first fuel cell fleet

BC Transit awarded a $46.4 million contract in August that will see the world's first fleet of hydrogen fuel cell buses deployed in Whistler by the end of 2009.

The fleet will showcase Canadian technology during the Vancouver 2010 Olympic and Paralympic Winter Games and will continue to provide regular transit service in Whistler.

The 20 buses will be supplied by New Flyer Industries of Winnipeg with fuel cells from Ballard Power Systems of Burnaby. ISE Corporation of San Diego will provide the drive train and electronics as well as the design and integration services for the pre-production bus and the final configuration for the production buses.

This project includes a hydrogen fueling station with a capacity of 250 kg/day in Victoria and a 1000/kg day capacity hydrogen fueling station in Whistler.

Associated activities in progress to meet delivery schedules include upgrading the Langford Transit Facility maintenance building in Victoria, training, and a data collection and reporting system.

Funding and New Partnerships

Flex and Self Funding

BC Transit supplemented its provincial operating grant by $4.7 million through the proceeds of a successful appeal of the GST treatment of its provincial assets. Further, over 140,000 hours in additional service was funded through added "flex-funding" from the local partners. Traditional cost-sharing has been reinstated for the 2008/09 fiscal year.

UBCM/Gas Tax Funding

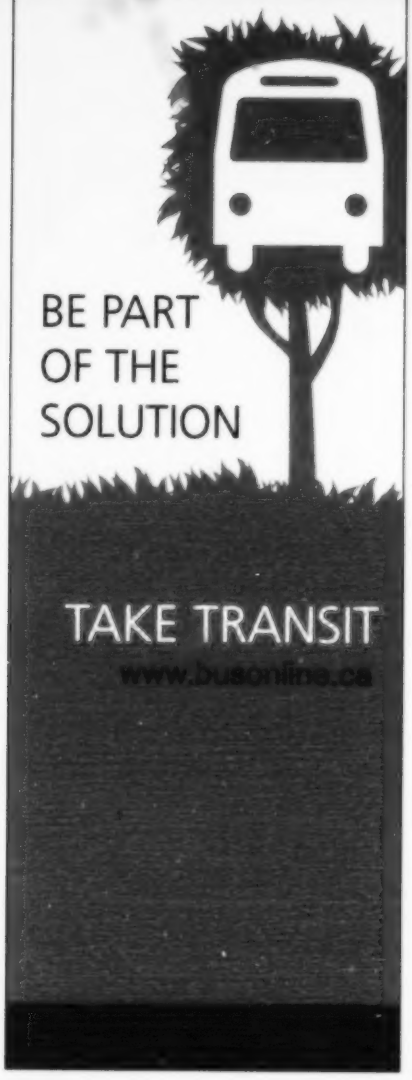
More than 20 of British Columbia's communities benefited from $12.1 million of federal gas tax funding earned in respect for transit vehicles and facility improvements. A further $24.2 million has been allocated to BC Transit in respect of future qualifying expenditures.

Fleet Deliveries

During the fiscal year ending March 31, 2008, BC Transit took delivery of 36 Novabus LFS 40 low floor transit buses. These buses were the first to meet the new 2007 emission regulations which drastically reduce the allowable amount of Particulate Matter (PM). All of these buses were used to expand transit service across the province. BC Transit's provincial fleet also added 11 new Community buses, 18 new handyDART buses and 14 new paratransit buses.

Transit Security

BC Transit received a 75% funding contribution from the federal government's Transit-Secure program. The $400,000 threat and risk assessment study and associated security plan includes all BC Transit's local and regional transit systems. By year end the study was well underway with site visits planned for Victoria and other select locations. BC Transit is also working in support of the Ministry of Transportation and other authorities to develop an integrated passenger transportation security plan.



Advertising and Promotion

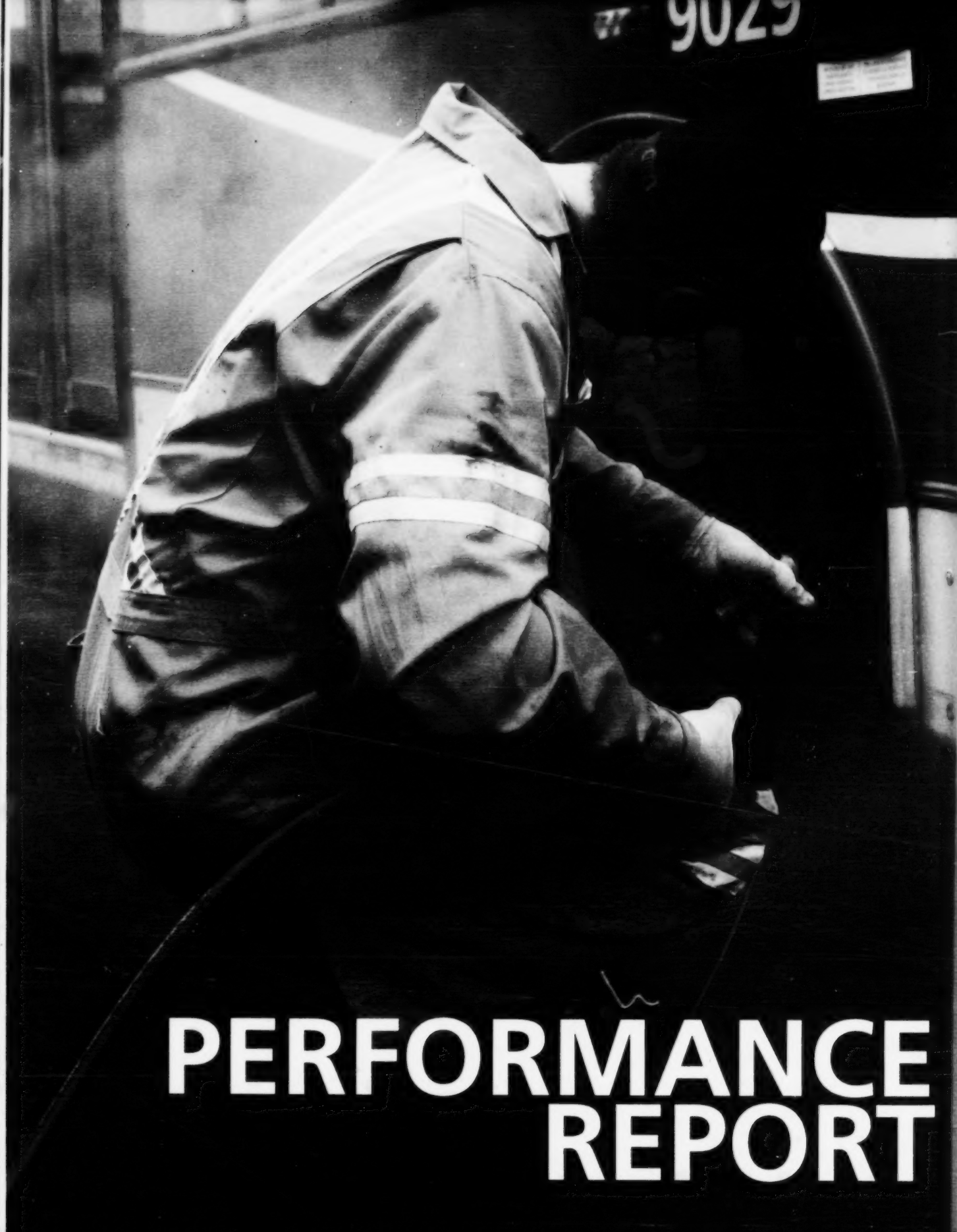
Artwork for BC Transit's green campaign - Be Part of the Solution – won a national contest sponsored by the Canadian Urban Transit Association. The green art is being used in over 100 communities nation-wide to promote public transit use.

Internet Access on Board

In November 2007 the Comox Valley Transit system became the first in BC to offer riders the ability to connect to the internet on 5 transit buses.

The service means passengers can connect to the internet through their laptops or PDA and can surf the web or send emails while riding the bus. The project is a 12-month pilot and a potential model for other transit systems.

The buses run on the Royston/Buckley Bay route and the North Valley Connector route. There are plans to work Wi-Fi onto routes to North island College.



PERFORMANCE REPORT

Performance Report

Introduction

This performance report highlights the results achieved by BC Transit in the fiscal year ending March 31, 2008. The first section presents the corporate goals, objectives and targets initially set for the corporation in the 2007/08 - 2009/2010 Service Plan along with a statement assessing performance against target.

The next section provides the summary corporate level financial and performance results with comparative figures for prior years and the original service plan targets from the 2007/08 - 2009/2010 Service Plan. Significant results including variances from target are discussed in the MD&A section.

To provide further comparative results, Appendix 3 presents standard transit industry performance ratio results for BC Transit compared to peer transit systems in the rest of Canada for the latest reporting period available.

Corporate Goals, Strategies and Results

Goal 1 — Service Delivery

Maximize the efficient and cost effective use of resources in the provision of safe, innovative and customer-oriented services to meet present and evolving market demands.

1. OBJECTIVE: ***Deliver core services and target services to new and/or growing priority areas.***

Strategy A. Reallocate service from lower demand periods to areas of higher demand, and develop service and tariff strategies to promote increased market share.

Target: Continuous improvement in average rides/hour program-wide for conventional transit services: 34.8 rides/hour in Victoria and 25.5 rides/hour in Municipal Systems.

Results: Victoria – 33.7 rides/hr, Municipal Systems – 26.4 rides/hr.

Target: Maintain industry leadership in productivity level for custom transit service: 2.8 rides/hour in Victoria and 4.8 rides/hour in Municipal Systems.

Results: Victoria – 2.6 rides/hr, Municipal Systems – 4.8 rides/hr.

2. OBJECTIVE: ***Improve service efficiency and effectiveness.***

Strategy A. Expand strategic purchasing initiatives to contain costs.

Target: Hold unit operating cost increases to a rate that is in the best 25% category of the peer transit systems in Canada.

Results: Analysis to follow Canadian Urban Transit Association (CUTA) results available fall 2008.

Strategy B. Pursue new funding and implement operational efficiencies to offset anticipated cost increases, in order to maintain the projected service level through the term of the Plan.

Target: Secure new funding and operational efficiencies to address forecast cost increases projected to be $7.5 million in Year 2 and $8.3 million in Year 3.

Results: funding obtained to cover original projected cost increase in Year 2.

3. OBJECTIVE: ***Improve transit safety for passengers and reduce the costs of accidents.***

Strategy A. Reduce preventable accidents through ongoing training and improved performance feedback.

Target: Victoria Regional Transit System: reduce preventable accidents below last three-year average in each year of the 2007/10 Service Plan period.

Results: Preventable vehicle accidents in 2007/08 equal to average of 2004/05 - 2006/07

4. OBJECTIVE: ***Implement high priority service improvements.***

Strategy A. Pursue new community funding partnerships to implement enhanced service.

Target: Expand partnership activities with Health Authorities, School Districts, employers, and flex funding contribution from local governement to fund $9.1 million in new small town and rural and enhanced transit services in 2007/08.

Results: Flex, health authority and other partnership funding necessary to implement all planned new services was received.

Goal 2 — Community Development

Plan and deliver transit services that meet local land-use and growth priorities, while furthering the development of safe, healthy communities and a sustainable environment.

1. OBJECTIVE: ***Identify and adopt new technologies to enhance customer service, improve air quality and reinforce transit's community benefits.***

Strategy A: Develop technical requirements and secure supplier arrangements to implement biodiesel fueling for BC Transit's bus fleet.

Target: Initialize biodiesel purchase in 2 or more select systems in Year 1 and adopt a fuel plan to move to a biodiesel standard throughout BC by Year 2.

Results: Biodiesel included in fuel supply agreements in 11 transit systems by year end.

Strategy B. Commence work on a program that will see BC Transit acquire and place a fleet of hydrogen fuel cell buses into regular service.

Targets: Select successful proponents from RFP process in 2006/07 to supply pre-production buses (1 or 2) as Phase 1 of the Hydrogen Fuel Cell Fleet. Advance project including steps to confirm federal government participation.

Select proponent and completion of Phase 1 and acquire remainder of fleet by end of Year 2.

Results: Contract executed with a Canadian based supplier group for provision of 20 vehicles meeting schedule and budget requirements.

2. OBJECTIVE: ***Support regional growth strategies, community planning initiatives and municipal empowerment.***

Strategy A. Work with local governments in the development of strategic transportation initiatives that support local and regional growth strategies.

Target: Implement Kelowna and Victoria Regions' Bus Priority Projects (Phase 1 – funded in Victoria by a federal transit infrastructure program and in Kelowna from Transport Canada, the provincial Ministry of Transportation and the City of Kelowna). Secure funding for the next phases of these projects prior to the end of the 2007/08 fiscal year.

Results: Provincial Transit Plan announced, and project plan and business case development underway at year end.

Strategy B. Advance applications for capital funds for priority projects under the federal government's "New Deal for Cities and Communities" and other senior government programs while working with BC Transit funding partners to establish sustainable capital program funding.

Target: Submit applications for those specific projects in BC Transit's Long Term Capital Plan which are eligible for federal government funding and endorsed by the local government partner.

Results: In excess of $12 million in federal gas tax funding receivable at year-end.

Strategy C. Broaden the awareness of public transit benefits through environmental education and climate change efforts.

Targets: Subject to funding, increase BC communities participating in Clean Air Day activities by 5% in Year 1. Build and deliver public transit and active transportation youth education programs through partnership with 2010 Legacies Now.

Results: Program published/delivered, target exceeded.

Statistics and Performance Measures

The industry-wide standard indicators and performance measures used in BC Transit's Annual Report to measure the achievement of strategic goals are those universally adopted by the North American transit industry. An explanation of the statistical and performance measures used in this report is included in the glossary. Data reliability is assured as follows:
Ridership information is collected using an industry-standard reporting protocol and common definitions. (The same information is used by Statistics Canada for its Standard Industrial Classification reports.) Estimates are derived using statistically valid sampling measures from sources of data which include comparisons between revenue, farebox passenger counts and automated passenger counts.

Per capita estimates use population figures from the most recently published census, adjusted annually by BC Statistics and collated for the respective Transit Service Areas by BC Transit.

Service hours delivered are calculated based on billings and operating statements in the Municipal Systems Program, which are verified by audits. Service hours delivered in Victoria are based on payroll records. Actual financial results are audited and prepared in accordance with generally accepted accounting principles.

BC Transit Corporate Performance

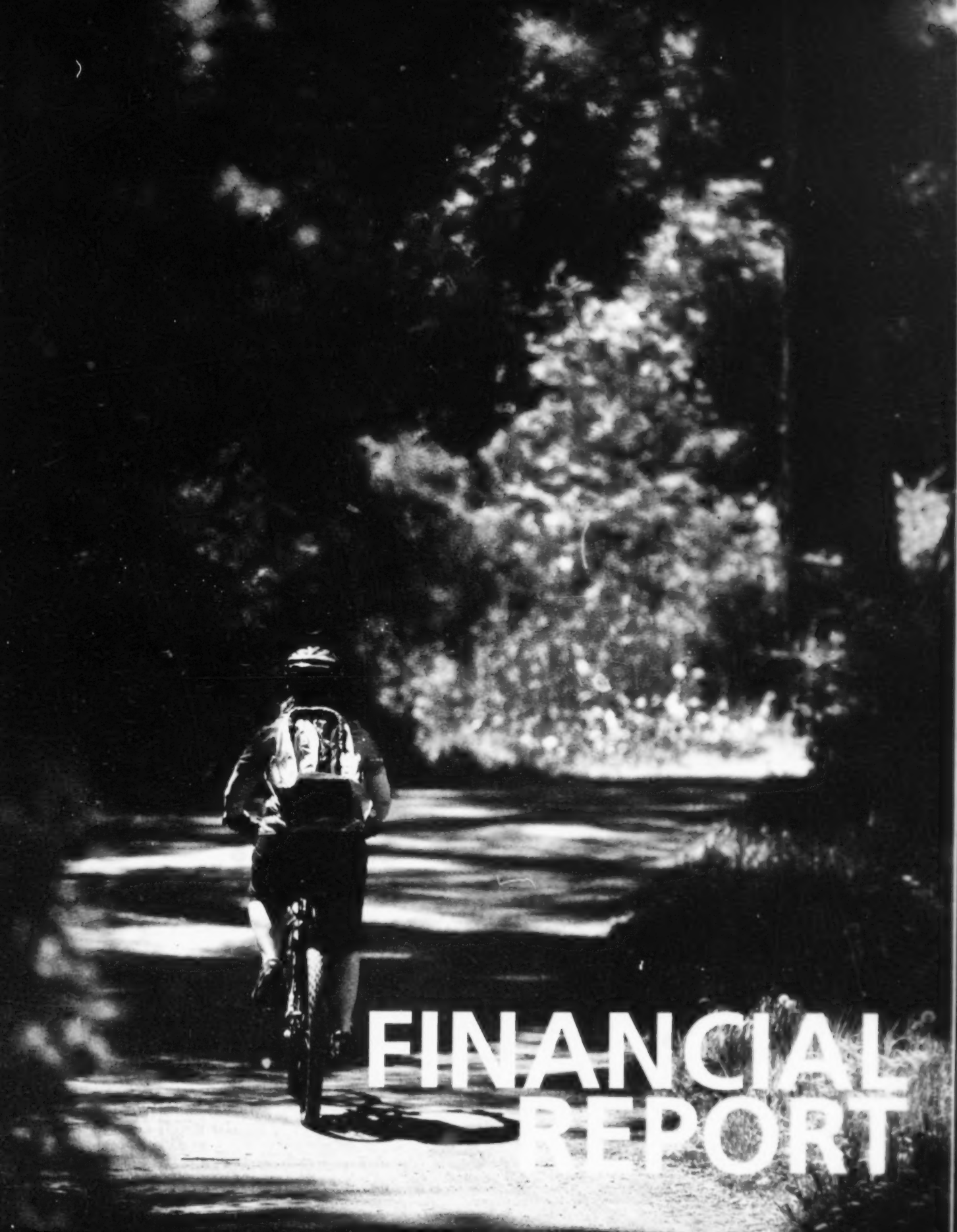
Table 1 below summarizes revenue, costs, service hours and passengers for all BC Transit programs (Municipal Systems Program and Victoria Regional Transit System combined) for the 2007/08 fiscal year, compared to corporate targets. Separate program level results for the Victoria Region and the Municipal Systems program are provided in Appendix 1 and 2.

Table 1	2005/06 Actual	2006/07 Actual	**2007/08 Actual**	2007/08 Corporate Target	2008/09 Service Plan Target	2009/10 Service Plan Target
SUMMARY						
Operating cost	$119,331	$129,508	**$145,044**	$144,685	$164,355	$182,931
Total revenue	$47,367	$50,917	**$55,925**	$58,841	$63,455	$69,755
Service hours (000s)	1,654	1,720	**1,833**	1,861	2,075	2,240
Revenue passengers (000s)	40,716	42,534	**44,684**	45,421	48,921	52,840

Corporate Target Revision

In March of 2007, the BC Transit Board of Directors amended corporate targets to reflect service changes. The revised targets reflect the corporate targets for 2007/08.

	Service Plan Feb/07	**Corporate Budget Mar/07**
Revenue		$57,959
$58,841		
Operating Costs	$144,786	$144,685
Service Hours	1,843	1,861
Passengers	45,074	45,421



FINANCIAL REPORT

Financial Report

Management Discussion and Analysis

Figures in thousands, except FTEs	2003/04 Actual	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2007/08 Target	2007/08 Variance
Revenue							
Passenger & advertising revenue	41,510	44,996	47,366	50,917	55,925	58,841	2,916
Provincial Contributions:							
Operating grant - base	46,269	46,531	49,457	49,641	52,029	52,029	-
Operating grant - supplemental	(737)	571	2,598	2,424	4,737	5,400	663
	45,532	47,102	52,055	52,065	56,766	57,429	663
Capital amortization grant	19,335	21,046	19,161	21,051	22,991	24,345	1,354
Local taxation	30,647	30,877	32,948	39,734	46,759	43,811	(2,948)
Other:							
Amortization of net assets				1,742	861	885	24
Investment and other income	1,123	1,606	1,748	2,364	2,209	1,533	(676)
Gain/(Loss) on disposal of capital assets	(19)	-	122	26	(94)	-	94
	138,128	145,627	153,400	167,899	185,417	186,844	1,427
Expenditures							
Salaries and benefits	36,796	38,217	42,454	42,155	45,901	46,447	546
Operating costs	69,698	72,655	79,101	88,121	99,143	98,238	(905)
Amortization of capital assets	25,307	28,479	25,359	31,067	33,351	35,559	2,208
Interest expense	6,327	6,276	6,486	6,556	7,022	6,600	(422)
	138,128	145,627	153,400	167,899	185,417	186,844	1,427
Capital expenditures							
Vehicle	737	3,983	16,869	15,753	34,139	32,150	(1,989)
Non-Vehicle	5,442	4,229	4,544	1,033	2,399	11,425	9,026
	6,179	8,212	21,413	16,786	36,538	43,575	7,037
FTEs (as at year end)	562.2	578.5	608.6	645.8	706.0	700.4	(5.6)
Service hours	1,555	1,601	1,654	1,720	1,833	1,861	28
Passengers	37,489	38,609	40,716	42,534	44,684	45,421	(737)

Note: Includes amortization of net assets and foreign exchange gains normally recorded in Net Assets

REVENUES

Passenger and advertising revenues
– Unfavourable $2,916,000

Victoria revenue was 7% ($2.56 million) below target. Of this 5% is a result of lower than projected ridership and 2% due to lower average fares per passenger.

Projections for 2007/08 ridership reflected growth in the 7-8% range during an extended period of high retail fuel prices in the summer/fall of 2006. These ridership levels were clearly influenced by the prolonged run-up in fuel prices that occurred at that time. Fuel prices moderated after budget development and subsequent fuel price changes have not resulted in the immediate increase in transit ridership that had previously occurred. Overall, ridership increased 3% over the prior year.

Increased pass use combined with greater than expected acceptance of the multi-directional transfer introduced at the start of the year resulted in a 2% drop in the average fare per passenger.

Advertising revenue was 21% below budget due to the general downturn in the transit advertising industry as well as increasing competition for advertising, particularly from media start-ups.

Municipal Systems completed the year 1% ($356,000) under target, with the largest shortfalls occurring in the Whistler and Kelowna systems. The shortfall for Whistler is attributed to a combination of overestimating ridership growth and underestimating use of free rides. Changes to fares, including an increase to cash fares and the introduction of a 90 minute transfer, caused Kelowna's deviation from budget. The strategy will correct in the long term. Despite revenue for the Municipal Systems coming in 1% under target, revenues for both Whistler and Kelowna increased from 2006/07. Revenues for the Municipal Systems Program as a whole increased 7.3% over last year.

GOVERNMENT FUNDING

Contribution from the Province – Favourable $663,000

BC Transit self-funded residual requirements for provincial operating grants by drawing $4.74 million of the $5.40 million proceeds realized on the appeal of the application of GST to the SkyTrain Expo Line – a BC Transit asset under long-term lease to TransLink. The residual will be applied to 2008/09 fuel costs.

Local Taxation – Unfavourable $2,948,000

Local tax revenues in Victoria were $2.71 million higher than target to cover the shortfall on passenger and advertising revenues. Reduced passenger and advertising revenues increased the draw on the local taxation component of the regional transit fund potentially accelerating fund depletion.

Fuel tax collections in the Victoria region were slightly under target although the variance was less than 1% and can be explained by rising gas costs as well as consumers purchasing more fuel-efficient vehicles. The variance in Municipal Systems local tax revenues was attributed to accruals for environmental remediation costs.

EXPENSES

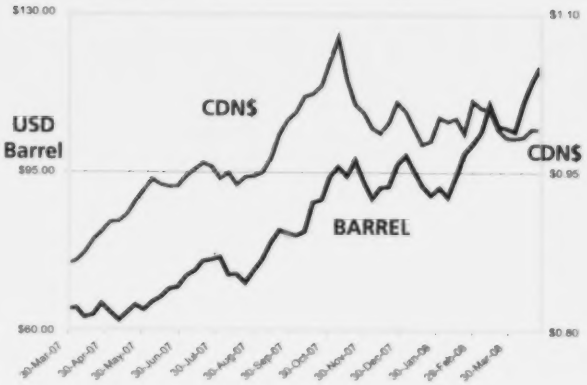
Operating Costs – Unfavourable $359,000
2007/08 expenditure variances versus corporate budget are as follows:

Operations – Favourable $2,381,000

Functional Description

	Victoria	Municipal Systems	BC Transit
Operations	$489,000	$1,892,000	$2,381,000
Maintenance	(690,000)	(1,350,000)	(2,040,000)
Administration	(500,000)	(200,000)	(700,000)
Total operating costs	(701,000)	342,000	(359,000)

Oil Barrel Pricing and Canadian Exchange
Mar 30/07 - Mar 30/08



Labour & Fuel Costs

Overall, BC Transit finished on target for fuel costs. In Victoria, the budgeted price for 2008/09 was 90 cents per litre. Rates across the province differed marginally depending on local markets, proximity to refinery supply and transportation costs. Both Victoria and the Municipal Systems program maintained contingencies for increased fuel costs and potential expansion. Victoria's contingency was directed to labour costs but, with the exception of a $500,000 annual vacation adjustment at year-end, was not drawn on. Benefit savings and improved labour utilization maintained the reserve.

Positive results in the Municipal Systems minimized draws and substantially maintained the operating reserve.

The world price of oil increased from $70 to $108 per barrel during the year. However, Canadian diesel consumers were shielded from rising costs by the appreciation of the Canadian dollar. In addition, the traditional 10 cents per litre price advantage enjoyed by eastern consumers reversed for part of the fiscal year. Prices increased in the fourth quarter continuing into 2008/09. These increases offset gains realized early in the fiscal year. A discussion of 2008/09 fuel cost pressures follows in Risks and Opportunities.

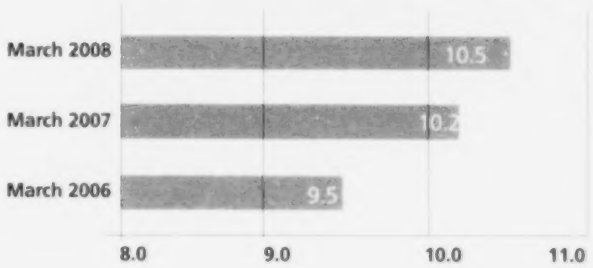
Maintenance – Unfavourable $2,040,000

Fleet Maintenance costs

Maintenance costs continue to increase at a rate greater than inflation. In the Municipal Systems, the cost per hour of running repairs increased 10% over the previous year. Overall, running repairs exceeded budget by $1 million. In Victoria, fleet maintenance costs exceeded budget by almost $300,000. Many factors drive increased maintenance costs including rapidly escalating parts prices. Most replacement parts are purchased directly or indirectly from offshore. The appreciation in the Canadian dollar did not significantly reduce costs owing to the concurrent increase in base metal prices. Further, maintenance costs for older fleets are increasing significantly as they near the end of their useful life, particularly those in which significant maintenance has been deferred. However, life cycle analysis indicates it is still economic to maintain these vehicles rather than replace them outright and incur significant write-offs in addition to accelerated fleet replacement debt service charges. Finally, the increasing complexity of the transit fleet continues to contribute to increased parts costs.

In Victoria, additional investment for servicing and running repairs was required due to the aging fleet and addressing maintenance deferred from prior periods. This increase was partially offset by a reduction in major overhauls. In the Municipal Systems program, increased expenditures were required in maintenance for running repairs on an aging fleet. Increased costs for parts and materials were incurred in both areas as a result of both transportation costs and higher commodity input prices required for parts manufacturing.

Average Age of Conventional Vehicles



Facility Maintenance and Occupancy

BC Transit's aging facilities require increasing repair and modifications to meet the physical requirements of expanding service levels. In 2007/08, costs exceeded budget by $740,000. Of this, $350,000 was incurred for environmental remediation costs. Residual facility maintenance costs increased with the growing price of building trades and materials. In the Capital Region, increased costs were experienced primarily in consulting, environmental waste management, and facility maintenance.

A competitive market for skilled trades means construction-related costs are rising significantly faster than general inflation. Further, improving regional economies are driving up both lease and acquisition costs for facilities. This issue is compounded by the difficulty in securing appropriate tenure on sites of a size and location conducive to efficient transit operations.

Victoria's extremely competitive labour market pushed the costs of recruitment and retention up as the corporation expanded its geographic search area to secure recruits. In addition, recruitment levels were 35% above the prior year and, as a result, human resources related costs increased by $300,000.

Volume-driven demands increased overtime and part-time administrative staff costs by $100,000. Staff turnover was reflected in higher training costs.

Increased marketing and transit promotion, primarily for additional Riders Guides and partnership contributions required an additional $100,000.

Additional consulting and staff costs in order to implement the largest transit expansion in Municipal Systems program history resulted in a $200,000 overrun in BC Transit management services charged to the program. Service expansion in 23 transit systems and the introduction of service in four communities in 2007/08 represents an annual 12% increase in service.

Administration - Unfavourable $700,000

BC Transit – Owned and Leased Facilities

Location	Land	Building	Construction Date	Estimated Capacity Remaining
Kelowna	leased	owned	1999	-20%
Whistler	leased	leased	1992	-10%
Vernon	leased	leased	1981	-5%
Kamloops	owned	owned	1982	-5%
Victoria Garage	owned	owned	1952	0%
Victoria Custom Facility	owned	owned	1987	0%
Victoria Admin. Building	owned	owned	1989	0%
Dawson Creek	leased	leased	2002	0%
Fort St John	leased	leased	1979	5%
Campbell River	leased	leased	1990	5%
Central Fraser Valley	leased	owned	2000	5%
Victoria/Langford Admin. & Garage Facility	leased	owned	1998	20%
Trail	leased	leased	1981	25%

Debt Service – Favourable $709,000

Net Debt Service costs represent those capital program costs recoverable from the local partner rather than Federal, Provincial or other grants and funding sources.

Later than anticipated in-service dates for vehicles in the Municipal Systems program and in Victoria, project timing for facility upgrades, park and ride development, the North Douglas upgrade, and information technology upgrades resulted in favourable variances of $709,000.

Description	2007/08 Actual	2007/08 Target	Variance
Amortization of Capital Assets	$33,351	$35,559	$2,208
Long Term Interest	7,022	6,600	(422)
Amortization of DCC	22,991	24,345	1,354
Amortization of Net Assets	861	885	24
*Sinking Fund Interest	1,834	1,533	(301)
Net Debt Service Costs	$14,687	$15,396	$709

* A component of Investment and Other Income.

BALANCE SHEET

Explanation of Major Changes

The company operates on a cost recovery basis. Consequently, transit operations do not generate changes in the corporate balance sheet aside from working capital shifts caused by the timing and realization of revenues and expenditures.

The major balance sheet driver remains the capital program and related financing. In this regard, BC Transit is increasing capital expenditures in line with expansion requirements. Capital grants from federal and provincial funding partners are accounted for as deferred contributions and amortized on the same basis as the related asset. The local share of capital expenditures is financed by fiscal agency loans arranged through the Debt Management Branch of the Ministry of Finance. Debt service costs are recovered on a current basis from the local partner.

During the year cash balances declined over $15 million due to capital expenditures incurred in advance of $12 million in federal capital grants committed and receivable at year-end. In addition, the company realized shifts in working capital and other transactions, further reducing cash on hand by $3 million. Capital expenditures of $37 million net of amortization of $17 million resulted in a $20 million increase in the net book value of capital assets.

Significant Accounting Changes

The adoption of reporting standard for Financial Instruments resulted in BC Transit recognizing $3.6 million in gains on foreign exchange contracts and the market value of sinking funds and other investments.

2007/08 is the last year that the company will employ the sinking method of capital asset amortization. The transition to straight line amortization will improve compliance with generally accepted accounting principles but will accelerate the write-off of BC Transit capital assets. The impact on the balance sheet, particularly capital assets, will be significant as net book values decline more rapidly. These increased capital asset amortization charges will be largely offset by increased straight line charges to capital grant amortization.

In the longer term, it has yet to be determined whether BC Transit will be required to report under International Financial Reporting Standards. If so, there will be a profound impact on financial statement disclosure, particularly capital asset valuation and amortization.

OPPORTUNITIES AND RISK FACTORS

Fuel

Fuel is BC Transit's largest and most volatile area of cost exposure. The company purchases 22 million litres of diesel fuel annually. The 2008/09 budget was established at a time when 2008/09 fuel costs were forecast at U$80/bbl. equating to a budget of $0.95 per litre. Recently, world oil prices have exceeded U$120/bbl - far exceeding earlier forecasts. Further, the Canadian dollar has stabilized relative to the US dollar and no longer insulates Canadian consumers from the impact of higher world oil prices.

Despite the inherent volatility, BC Transit is purchasing fuel on a weekly rack rate rather than hedge fuel prices as a significant hedging premium exists in the western diesel market. Further, owing to the uniqueness of this market, it is difficult to develop a synthetic hedging instrument that covers fluctuations in this market. Despite this volatility the company receives a significant commercial discount relative to retail rates. At the time of writing, the company was paying $1.25/litre against a retail rate of $1.37/litre.

Owing to the hedging premium, BC Transit will continue to purchase fuel at rack rates. BC Transit has engaged the assistance of fuel purchasing specialists to monitor and evaluate the diesel purchasing strategy. This issue will only increase in the corporate risk profile as new vehicles are significantly less fuel efficient in order to burn off particulates and reduce overall emissions.

Over 80% of the fuel utilized has a minimum 5% bio content (B5). This reduces greenhouse gases as well as positions the company to comply with pending legislation in this regard. However, the cost of biofuels is increasing as producers shift to a market pricing model based on conventional petroleum product pricing.

While increasing fuel costs results in increased ridership, it is unlikely that the lift will fully compensate for increased costs. If current pricing continues, additional funding or service adjustments will be required to stay within budget. Funding partners will be advised as events develop in this regard.

Fleet Maintenance costs

As previously noted, maintenance costs are increasing at a rate greater than inflation. On a budget-to-budget basis, 2008/09 unit costs have seen budgeted rates exceeding inflation but below the actual increase incurred in 2007/08. With the aging fleet, difficult running conditions in many communities and the compounded effects of prior maintenance deferrals, this continues to be an area of risk. Further, certain elements of the fleet have proven to be less durable than originally anticipated. BC Transit continues to expand maintenance analysis to develop solutions to this issue.

Labour Costs and Availability

BC Transit's collective agreements expire March 31, 2010 insulating the company from labour rate variances through the 2009/10 fiscal year. However, with the strong regional economy Victoria has among the lowest unemployment rates in the country. The buoyant local labour market has resulted in increased difficulty in recruiting staff particularly in skilled trades, technical vocations and the professions. This combined with the accelerating pace of retirements, continuing service expansion and emerging requirements including environmental monitoring and compliance and project evaluation and management, has created significant recruiting challenges.

Over 30% of BC Transit's workforce is eligible to retire in the next 5 years. Current projections for increased transit service are based on service plans averaging 7% service increases per annum. Recruitment and replacement costs, including job advertisements and recruiting fees, accounted for the largest administrative cost overrun in 2007/08. Staff is addressing hiring demands through the use of targeted employment websites, job fairs, community outreach and expedited hiring processes.

Finally, benefit costs continue to pose a challenge owing to an aging workforce, higher prescription and basic benefit rate increases. In response, BC Transit continues to focus on employee wellness and rehabilitation initiatives including graduated return to work programs.

Transit System RFP Costs

As predicted in the 2007/08 Service Plan, the strength of the BC and Alberta economies continued to impact regional market labour rates and labour availability.

Further, despite the efforts of staff to promote RFPs, the response was disappointing indicating that significant entry barriers remain to this business. BC Transit continues to promote access to this critical component of the service delivery model.

Facilities and Environmental Compliance

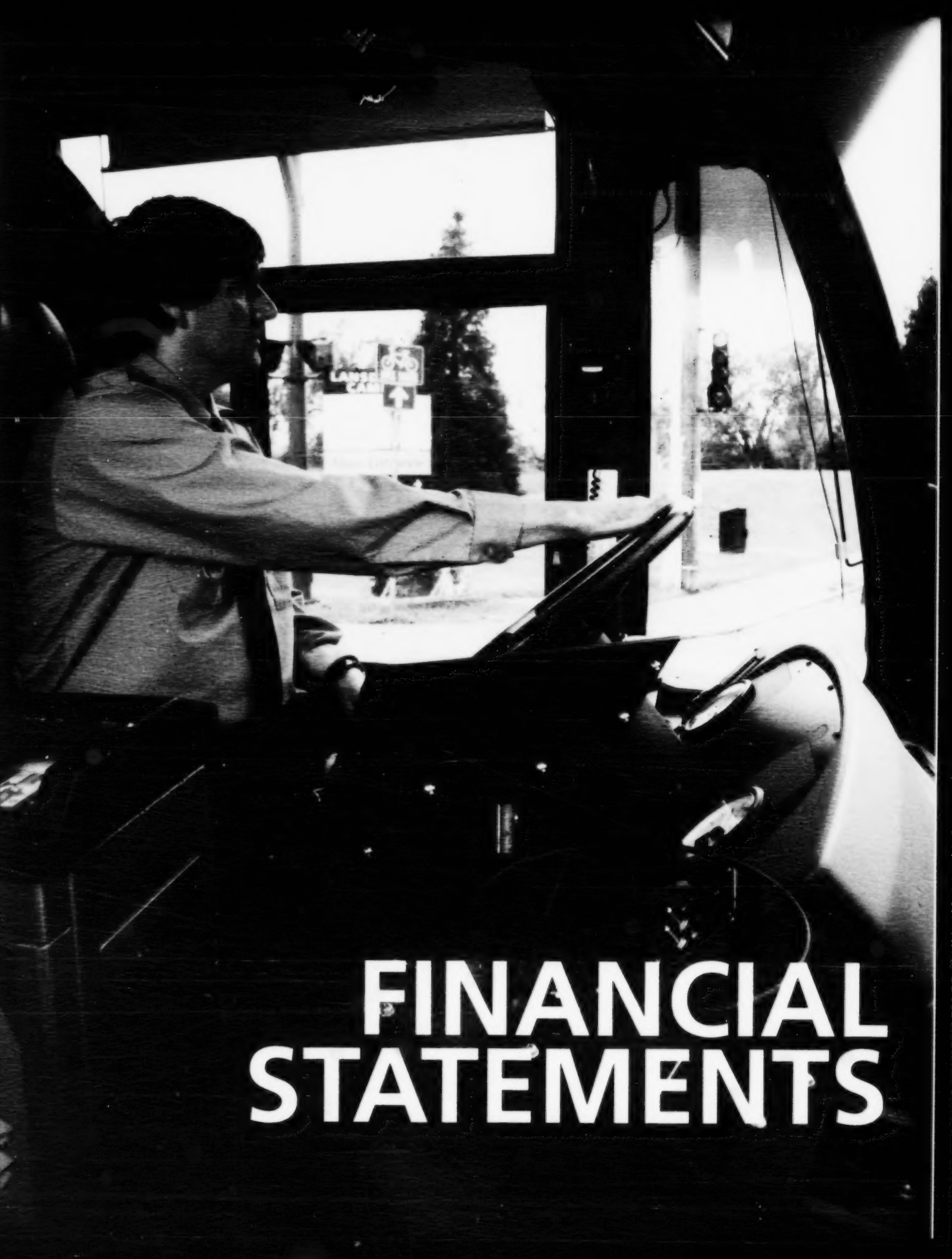
The demands of expansion have forced a system-wide assessment of facilities condition as well as BC Transit's asset ownership and management strategy. The environmental regulatory framework under which BC Transit operates dictates that BC Transit has varying degrees of responsibility and liability, even for facilities it does not own or operate directly. In response, the company plans expanded environmental assessment and compliance programs.

OUTLOOK

The Province has initiated the Climate Action Initiative requiring the BC Public Sector to be carbon-neutral by 2010 and for provincial GHGs to be reduced by 33% by 2020. The local partners have endorsed this initiative by signing the BC Climate Action Charter. In a precedential move, the Federal government has provided enhanced capital funding to public transit through the gas tax transfer programs in order to reduce emissions. In short, all levels of government are working to improve the environment and public transit and the achievement of higher mode shares is key to that objective. BC Transit's Shareholder's Letter of Expectations states among its top priorities to "provide advice and support to the Shareholder on transit services and technologies that support government environmental and climate change objectives" and "in support of the Hydrogen Highway initiative, develop and place into service in Whistler a fleet of 20 hydrogen powered fuel cell buses and associated fueling infrastructure..."

For 2008/09 the Province has reinstated traditional cost-sharing and significantly increased the operating and capital grants in order to meet BC Transit's ambitious service, ridership and climate change objectives. This includes the development of rapid transit services in Victoria and Kelowna, the Hydrogen Fuel Cell Bus fleet, the VANOC Whistler fleet plan, and accelerated service expansion across the province.

In light of BC Transit's current staffing challenges, the state of corporate fleet and facilities and the prevailing risks in its operating and financial environment, the successful execution of several complex, concurrent initiatives will challenge BC Transit.



FINANCIAL STATEMENTS

REPORT OF MANAGEMENT
Year ended March 31, 2008

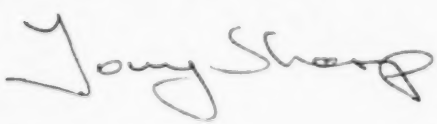
The financial statements of British Columbia Transit ("BC Transit") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles consistently applied and appropriate in the circumstances. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the financial statements and incorporate, within reasonable limits of materiality, all information available as at May 14, 2008.

BC Transit's system of internal controls is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, financial information is reliable and ethics codes are observed. Inherent to the concept of reasonable assurance is the recognition that there are limits in all internal control systems and that system costs should not exceed the expected benefits. The system includes the selection, training and development of qualified personnel, organizational division of responsibilities, appropriate delegation of authority and formal written company policies and procedures including the conflict of interest policy of all BC Transit officers and employees.

The financial statements have been examined by KPMG LLP, BC Transit's independent external auditors. Their responsibility is to express their opinion whether the financial statements in all material respects, present fairly the financial position, results of operations and cash flows in accordance with generally accepted accounting principles. Their report follows. The Board of Directors meets regularly with management and the external auditors to satisfy itself that the company's system of internal control is adequate, to ensure that responsibilities for financial reporting are being met, and to provide an opportunity for full and open access to the Board of Directors in respect to financial reporting matters.

Management is responsible for all of the information in this Annual Report. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Manuel Achadinha
President and Chief Executive Officer



Tony Sharp, CA
Vice President, Finance and Chief Financial Officer

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Fax (250) 480-3539
Internet www.kpmg.ca

AUDITORS' REPORT

To the Members of the Board of Directors of
British Columbia Transit

We have audited the balance sheet of British Columbia Transit as at March 31, 2008 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

May 14, 2008

BRITISH COLUMBIA TRANSIT
Balance Sheet

March 31, 2008 ($000)

		2008		2007
Assets				
Current assets:				
Cash and cash equivalents (note 3)	$	21,666	$	36,756
Accounts receivable:				
Federal Capital Grants		12,148		-
Municipalities		9,675		7,961
Trade and other		4,431		4,276
Parts inventory		6,215		5,817
Prepaid expenditures		1,284		1,409
Derivative financial instruments (note 13(b))		737		-
		56,156		56,219
Debt sinking funds (note 4)		32,553		25,929
Capital assets (note 5)		200,473		180,610
Capital assets under lease (note 6)		878,256		896,138
Investment in Transportation Property and Casualty Company Inc.		20		20
	$	1,167,458	$	1,158,916
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	$	17,220	$	14,353
Deferred revenue (note 7)		9,825		14,285
Current portion of long-term debt		-		10,200
Current portion of obligations under capital leases		17		17
		27,062		38,855
Long-term debt (note 8)		113,933		111,724
Obligations under capital leases (note 9)		162		180
Deferred contributions (note 10)		17,073		15,617
Deferred capital contributions (note 11)		933,112		919,912
		1,091,342		1,086,288
Net Assets				
Contributed surplus		70,210		71,644
Accumulated net assets		5,906		984
		76,116		72,628
	$	1,167,458	$	1,158,916

Commitments (note 14)
See accompanying notes to financial statements.
Approved on behalf of the Board:

Director

Director

BRITISH COLUMBIA TRANSIT
Statement of Operations

Year ended March 31, 2008 ($000)

	2008	2007
Revenue:		
Operations	$ 55,925	$ 50,917
Investment and other income	3,380	2,364
	59,305	53,281
Expenditures:		
Operations and maintenance	133,269	118,464
Administration	10,788	10,057
Interest on long-term debt	7,022	6,556
Amortization of capital assets	16,043	14,234
Vehicle/property leases and taxes	2,157	1,756
	169,279	151,067
Recoveries:		
Contributions from the Province of British Columbia:		
Operating grants	52,029	49,641
Supplementary operating grant	6,097	2,424
Contributions from municipalities (note 10)	46,758	39,734
Amortization of deferred capital contributions - capital assets	6,544	5,960
	111,428	97,759
Revenue (expenditures) from transit operations	1,454	(27)
Other:		
Amortization of capital assets under lease	(17,308)	(16,833)
Amortization of deferred capital contributions - capital assets under lease	16,447	15,291
Gain (loss) on disposal of capital assets	(94)	26
Gain on foreign exchange and derivatives	821	-
	(134)	(1,516)
Net revenue (expenditures) for the year	$ 1,320	$ (1,543)

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT
Statement of Changes in Net Assets

Year ended March 31, 2008 ($000)

	Accumulated net assets	Contributed surplus	Total 2008	Total 2007
Balance, beginning of year	$ 984	71,644	72,628	74,202
Effect of adoption of new accounting policies (note 2)	2,616	-	2,616	-
Net revenue (expenditures) for the year	1,320	-	1,320	(1,543)
Unrealized gains from change in fair value of available for sale securities	125	-	125	-
Return of contribution to the Province (note 7)	-	(573)	(573)	(31)
Internal transfer	861	(861)	-	-
Balance, end of year	$ 5,906	70,210	76,116	72,628

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT
Statement of Cash Flows

Year ended March 31, 2008 ($000)

	2008	2007
Cash provided by (used for):		
Operations:		
Net revenue (expenditures) for the year	$ 1,320	$ (1,543)
Items not involving cash:		
Amortization of capital assets	16,043	14,234
Amortization of capital assets under lease	17,308	16,833
Amortization of deferred capital contributions	(22,991)	(21,251)
Gain (loss) on disposal of capital assets	94	(26)
Unrealized gain on foreign exchange derivative	(737)	-
Net changes in non-cash operating working capital:		
Accounts receivable	(1,869)	(163)
Parts inventory	(398)	252
Prepaid expenditures	125	(45)
Accounts payable and accrued liabilities	2,867	(1,554)
Deferred revenue	(4,460)	4,727
	(3,735)	3,217
	7,302	11,464
Investing:		
Proceeds from sale of capital assets	537	26
Additions to capital assets	(36,536)	(16,786)
Recoveries from capital assets under lease	573	3,452
	(35,426)	(13,308)
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	(573)	(31)
Increase in deferred contributions	1,456	1,656
Capital lease payments	(18)	(18)
Increase (decrease) in long-term debt	(7,991)	16,293
Increase in debt sinking funds	(3,883)	(714)
Deferred capital contributions received	24,043	4,872
	13,034	22,058
Increase (decrease) in cash and cash equivalents	(15,090)	20,214
Cash and cash equivalents, beginning of year	36,756	16,542
Cash and cash equivalents, end of year	$ 21,666	$ 36,756

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT
Notes to Financial Statements

Year ended March 31, 2008 ($000)

1. Purpose:

British Columbia Transit ("BC Transit") was established under the British Columbia Transit Act, as amended in 1998, to operate the urban transit systems in the Province of British Columbia outside of the Metro Vancouver Regional service area. In 2008 BC Transit recovered 43.9% (2007 - 44.6%) of its expenditures from the Province of British Columbia with the balance from transit operations and municipalities.

BC Transit, on behalf of the Victoria Regional Transit Commission, is responsible for the administration of all funds raised by certain tax levies. The financial position and changes in the funds during the year are set out in note 12.

2. Summary of significant accounting policies:

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. The significant accounting policies are set out hereunder:

(a) Short-term investments:

Short-term investments are classified as held for trading and carried at fair value. In 2007, these investments were recorded at the lower of cost and market value. This change in classification did not result in any change in the recorded amounts.

(b) Parts inventory:

Parts inventory is valued at the lower of cost on a first-in first-out basis, and replacement cost. Inventories are recorded net of any obsolescence provisions.

(c) Debt sinking funds:

Debt sinking funds, consisting of pooled investment portfolios and Canada, provincial government and Crown corporation bonds, were recorded in 2007 at the lower of amortized cost or market. Effective April 2007, these investments are classified as available for sale and recorded at fair value. Fair values are determined on the basis of quoted bid price.

2. Summary of significant accounting policies (continued):

(d) Capital assets:

(i) All capital assets, except those noted in (ii) are recorded at cost, including capitalized interest as described in note 2(f).

(ii) Amortization is provided on the basis that results in a matching of these charges with BC Transit's statutory power to recover the cost of the related assets. Contributed assets are not subject to recovery and are amortized over their estimated useful lives. All assets are amortized by the sinking fund method over a period not exceeding their estimated remaining useful lives. Land is not subject to amortization. The assessment of net recoverable amounts is determined by applying the applicable deferred capital contributions to capital costs.

(e) Investment in Transportation Property and Casualty Company Inc.:

BC Transit's 10% interest in Transportation Property and Casualty Company Inc. is recorded on the cost basis of accounting.

(f) Capitalization of interest:

Interest incurred in connection with capital acquisitions from the date of advance of funds until the assets are placed in service for transit purposes is capitalized. In 2008 interest of $207 was capitalized (2007 - $211).

(g) Amortization of bond premiums and discounts:

Bond premiums and discounts are amortized on an effective yield basis over the term of the debt.

(h) Revenue recognition:
All sources of revenue are recognized on the accrual basis.

BC Transit follows the deferral method of accounting for contributions. Contributions from third parties for defined purposes are recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

2. Summary of significant accounting policies (continued):

(i) Deferred capital contributions:

Deferred capital contributions include the unamortized portions of capital asset contributions. Contributions for capital projects are provided by prepaid capital advances from the Province and capital grants from the federal government. These prepaid capital advances are recorded by BC Transit as deferred capital contributions and are recognized in the statement of operations on the same basis as the related assets are amortized. This matches the amortization of the deferred capital contributions with the expenditures incurred through amortization of the capital assets acquired with the funds.

(j) Employee future benefits:

BC Transit and its employees contribute to the Public Service Pension Plan, a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the plan. The pension plan is a multi-employer contributory defined benefit pension plan with over 51,000 active plan members and approximately 30,000 retired plan members. Required contributions to the plan are expensed as incurred.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation was as at March 31, 2005, and disclosed a $767 million deficit for funding purposes. The actuary does not attribute portions of the deficit to individual employers. The next required valuation will be as of March 31, 2008. Contributions to the plan in 2008 by BC Transit totaled approximately $3,031 (2007 - $2,773).

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reported periods. Significant areas requiring the use of management estimates include the determination of amortization periods and certain accrued liabilities. Actual results could differ from the estimates. Adjustments, if any, are reflected in operations in the period of settlement.

2. Summary of significant accounting policies (continued):

(l) Income and capital taxes:

BC Transit is exempt from Canadian federal and British Columbia provincial income and capital taxes.

(m) Impairment of long-lived assets:

BC Transit monitors the recoverability of long-lived assets, including capital assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. BC Transit reviews factors such as current market value, future asset utilization and business climate and compares the carrying value of the assets to the future undiscounted cash flows expected to result from the use of the related asset. If such cash flows are less than the carrying value, the impairment charge is recognized based on the excess of unamortized cost over fair market value.

(n) Change in accounting policy:

Effective April 1, 2007, the BC Transit adopted CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement and related financial instrument Handbook sections.

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity of another party. Financial assets include cost and rights to receive cash or another financial instrument from another party. Financial liabilities represent contractual obligations to deliver cash or other financial instruments to another party.

Cash and cash equivalents, including short-term investments and all derivative financial instruments are classified as held for trading and carried at fair value with unrealized gains or losses recorded in current year operations.

Accounts receivable, accounts payable and accrued liabilities and long-term debt are all initially recorded at fair value and then carried at amortized cost thereafter. Transaction costs and debt premiums or discounts are reflected in the carrying amount of long-term debt and amortized on an effective interest rate basis.

Investments in sinking funds are classified as available for sale and carried at fair value. The unrealized change in fair value is reflected as an adjustment to accumulated net assets to be recorded in income when realized.

The impact to the opening fund balances as a result of this change in accounting policy was to increase debt sinking funds and accumulated net assets by $2,616 representing the adjustment to fair value of investments.

2. Summary of significant accounting policies (continued):

(o) Future change in accounting policies:

Commencing with the fiscal year beginning April 1, 2008, BC Transit will be adopting CICA Handbook Section 3862, "Financial Instruments - Disclosure" and Handbook Section 3863, "Financial Instruments - Presentation" and Section 3031, "Inventories".

Sections 3862 and 3863 establish standards for the disclosure and presentation of financial instruments. Section 3031 prescribes the accounting treatment for inventories and provides guidance on the determination of costs and their subsequent recognition as an expense, including any write-down to net realizable value. Previously recognized write-downs are to be reversed upon net realizable values reversing. BC Transit does not expect the adoption of these standards to have a significant impact on its financial statements.

(p) Comparative figures:
Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation for the current year.

3. Cash and cash equivalents:

BC Transit considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

(a) Major components of cash and cash equivalents are as follows:

	2008	2007
Cash	$ 3,783	$ 4,996
Short-term investments	17,883	31,760
	$ 21,666	$ 36,756

(b) Supplemental cash flow information:

	2008	2007
Cash paid during the year for:		
Interest on long-term debt and notes payable	$ 6,936	$ 6,404
Cash received:		
Interest on investments	3,338	2,349

4. Debt sinking funds:

Investments held in the sinking funds, including interest earned, are to be used to repay the related debt at maturity.

Investment income in 2008 includes $286 (2007 - $31) of realized gains on disposition of investments in the sinking funds.

Sinking funds and related investments are managed by the British Columbia Investment Management Corporation ("BCIMC"). Investment management fees totaling $19 (2007 - $20) were paid directly from individual portfolios to BCIMC.

5. Capital assets:

March 31, 2008	Carrying value	Accumulated depreciation and amortization	Net book value
Land	$ 5,508	$ -	$ 5,508
Land improvements	2,554	1,429	1,125
Buildings	22,292	10,075	12,217
Revenue vehicles	239,606	80,369	159,237
Revenue vehicles under capital leases	294	115	179
Equipment	18,345	10,209	8,136
Capital projects in progress	14,071	-	14,071
	$ 302,670	$ 102,197	$ 200,473

March 31, 2007	Carrying value	Accumulated depreciation and amortization	Net book value
Land	$ 5,508	$ -	$ 5,508
Land improvements	2,554	1,285	1,269
Buildings	21,960	8,885	13,075
Revenue vehicles	217,719	69,612	148,107
Revenue vehicles under capital leases	294	97	197
Equipment	16,780	7,985	8,795
Capital projects in progress	3,659	-	3,659
	$ 268,474	$ 87,864	$ 180,610

6. Capital assets under lease:

These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to the South Coast British Columbia Transportation Authority ("SCBCTA") for their use pursuant to an Order in Council and operating lease and represent one of the Province's contributions toward public transportation in the Metro Vancouver service area.

The operating lease arrangements with SCBCTA are for one dollar per year under an initial 15-year term to 2014, with additional five-year renewal periods upon the agreement of BC Transit and the SCBCTA. Cost information of these assets is as follows:

March 31, 2008	Carrying value	Accumulated amortization	Net book value
SkyTrain	$ 1,201,299	$ 422,750	$ 778,549
West Coast Express	128,848	29,141	99,707
	$ 1,330,147	$ 451,891	$ 878,256

March 31, 2007	Carrying value	Accumulated amortization	Net book value
SkyTrain	$ 1,201,872	$ 408,924	$ 792,948
West Coast Express	128,848	25,658	103,190
	$ 1,330,720	$ 434,582	$ 896,138

7. Deferred revenue:

	2008	2007
Unexpended contributions:		
Provincial funding	$ 3,390	$ 8,132
Fuel Cells Canada	1,045	1,000
Public Transit Agreement	5,390	5,153
	$ 9,825	$ 14,285

BC Transit owns certain West Coast Express and SkyTrain infrastructure in Vancouver. The SkyTrain infrastructure included lands surplus to the operation of the Expo Line. As in prior years BC Transit has disposed of certain surplus lands. The total proceeds of $573 (2007 - $31) are included in deferred revenue. During the year, the Ministry of Transportation granted these and other accumulated funds to BC Transit to use for operating and capital expenditures. $6,097 was recognized in operations during the year and $458 was used to purchase capital assets. The remaining unexpended amounts represent funds designated for capital and special projects.

Deferred revenue also includes $775 received from the Ministry of Environment and held for retro-fitting diesel motors.

BC Transit earned interest of $45 and $237 respectively on deferred capital grants from Fuel Cells Canada and the Public Transit Agreement. As required under the related contribution agreements, this interest has been deferred.

8. Long-term debt:

	2008	2007
Sinking fund bonds, weighted average interest rate of 6.2%, maturing at various dates to 2023, amortized from 10 to 20 years	$ 100,184	$ 108,184
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 6.1%, maturing at various dates to 2011, amortized over 12 years	13,749	13,740
	113,933	121,914
Less current portion	-	(10,200)
	$ 113,933	$ 111,724

The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. BC Transit paid fees totaling $17 (2007 - $28) in the year for these fiscal agent services.

8. Long-term debt (continued):

Schedule of long-term debt maturities in each of the next five years are as follows:

2009	$	-
2010		9,829
2011		8,363
2012		9,918
2013		-
Thereafter		85,823

Schedule of long-term debt sinking fund installments in each of the next five years are as follows:

2009	$	5,916
2010		5,916
2011		5,606
2012		5,123
2013		3,689
Thereafter		28,838

9. Obligations under capital leases:

BC Transit leases equipment under leases which are classified as capital leases. The future minimum annual lease payments are as follows:

2009	$	34
2010		34
2011		34
2012		34
2013		34
Thereafter		63
		233
Less amount representing interest at 8.36%		(54)
Present value of capital lease obligations		179
Less current portion		(17)
	$	162

Interest incurred during the year with respect to obligations under capital leases amounted to $16 (2007 - $17).

10. Deferred contributions:

Debt service contributions to fund sinking fund and interest payments are recovered from municipal partners over the estimated service life of the related assets. These contributions may differ from the annual amortization of the related assets. Such differences are deferred to be recognized as a recovery in future periods.

	2008	2007
Balance, beginning of year	$ 15,617	$ 13,961
Contributions from municipalities - Victoria	22,688	20,286
Contributions from municipalities - other municipalities	25,526	21,104
Contributions from municipalities expended	(46,758)	(39,734)
Balance, end of year	$ 17,073	$ 15,617

11. Deferred capital contributions:

	2008	2007
Federal and Provincial contributions subject to amortization:		
Capital assets	$ 112,895	$ 83,248
Capital assets under lease	820,217	836,664
	$ 933,112	$ 919,912

12. Victoria Regional Transit Fund:

BC Transit holds funds in trust on behalf of the Victoria Regional Transit Commission. These funds are not included in the financial statements. The fund balance and transactions during the year are as follows:

Fund balance, beginning of year	$ 2,475
Revenue:	
Fuel tax	8,085
Property tax	12,888
Interest earned	227
Contributions	(22,688)
Fund balance, end of year	$ 987

13. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The estimated fair value of obligations under capital leases approximates their carrying value as they bear interest at rates approximating current market rates. Debt sinking funds are reflected on the balance sheet at fair value. The fair value of long-term debt at March 31, 2008 is $126,528 (2007 - $133,954).

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts for financial instruments. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(b) Exposure to interest rate, credit and foreign exchange risks:

Financial instruments that potentially subject BC Transit to significant concentrations of interest rate and credit risk consist primarily of cash equivalents, trade accounts receivable and debt sinking funds. To reduce risk, cash equivalents and debt sinking funds are only held at major financial institutions. Management performs ongoing credit evaluations of its customers' financial condition. As most receivables are from municipal partners, the exposure to credit risk is nominal.

BC Transit is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to interest rates and cash flow risk) and forward foreign exchange contracts (used to manage foreign currency exposures on foreign currency debt). These arrangements are in respect to long-term debt of $13,749 maturing in 2010 and 2011. The net fair value of these derivative instruments is nominal at March 31, 2008 and 2007.

BC Transit periodically commits to acquire certain capital assets, primarily transit vehicles, from suppliers requiring payment in either US dollars or Pounds Sterling. Such obligations may subject BC Transit to foreign currency risks. These risks may be mitigated by entering into foreign currency option agreements. As at March 31, 2008 BC Transit held options to acquire Pounds Sterling in the $CDN amount of $15,138, with a fair value of $737 (at March 31, 2007, no such derivative contracts were in place).

14. Commitments:

Operating lease payments:
BC Transit is committed to make future minimum payments under operating leases for the next five years as follows:

2009	$	1,320
2010		1,364
2011		1,485
2012		1,522
2013		1,544

These expenditures will be recovered from provincial and municipal sources pursuant to cost-sharing agreements.

As at March 31, 2008, BC Transit has outstanding contracts to purchase vehicles for approximately $47,260.